

Message Text

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ACTION TRSE-00

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USADB

PASS TREASURYDEP FOR SHERK

EO 11652:NA
TAGS:EAID, EFIN, ADB
SUBJECT: REVIEW OF THE FORMULA FOR ALLOCATION OF ADMINI-
STRATIVE EXPENSES BETWEEN ORDINARY AND SPECIAL
OPERATIONS

1. UNDER ARTICLE 10.3 OF THE ADB CHARTER, ADMINISTRATIVE EXPENSES THAT ARE NOT IDENTIFIABLE AS PERTAINING DIRECTLY TO ORDINARY OR SPECIAL OPERATIONS SHALL BE CHARGED AS THE BANK SHALL DETERMINE. UNDER A FORMULA APPROVED IN 1971 BY THE BOARD OF DIRECTORS, NON-IDENTIFIABLE EXPENSES WERE TO BE APPORTIONED ON THE BASIS OF BOTH THE AMOUNT AND NUMBER OF LOANS MADE IN EACH YEAR OUT OF ORDINARY CAPITAL (OC) RESOURCES AND SPECIAL FUNDS. UNDER A REVISED FORMULA APPROVED BY THE BOARD IN 1974, CERTAIN ADMINISTRATIVE EXPENSES PERTAINING TO THE BOARD OF GOVERNORS, BOARD OF DIRECTORS, OFFICES OF PRESIDENT, VICE-PRESIDENT, SECRETARY AND (FORMER) FINANCIAL ADVISOR AND THE PRO-RATA SHARE OF OTHER ADMINISTRATIVE EXPENSES RELATING THERETO WERE

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CHARGED WHOLLY TO OC RESOURCES. THE REMAINING ADMINI-STRATIVE EXPENSES WERE ALLOCATED ON THE BASIS OF THE COMBINED AVERAGE OF THE NUMBER AND AMOUNT OF LOANS APPROVED IN EACH YEAR OUT OF OC RESOURCES AND SPECIAL FUNDS.

2. AS SPECIAL OPERATIONS HAVE NOW BECOME A REGULAR

FEATURE OF THE BANK'S ACTIVITIES, ADB MANAGEMENT BELIEVES THAT THE DISTINCTION BETWEEN THE FORMER ALLOCABLE AND NON-ALLOCABLE ADMINISTRATIVE EXPENSES (I.E., THOSE RELATING TO GOVERNORS, DIRECTORS, OFFICES OF THE PRESIDENT, VICE-PRESIDENT AND SECRETARY) SHOULD BE DISPENSED WITH. ALSO, IT IS CONSIDERED THAT THERE ARE GOOD REASONS NOT TO TAKE INTO ACCOUNT THE "AMOUNT" OF LOANS APPROVED, AND TO BASE THE FORMULA EXCLUSIVELY ON THE "NUMBER" OF LOANS. (THE PRESENTLY PREVALENT FORMULAE IN IBRD AND IDB FOR APPORTIONING SUCH EXPENSES ARE ALSO BASED EXCLUSIVELY ON THE NUMBER OF LOANS AND CREDITS.)

3. IT IS THEREFORE RECOMMENDED THAT THE BOARD APPROVE THE FOLLOWING REVISED FORMULA TO TAKE EFFECT FROM FISCAL YEAR 1978:

- A. EXPENSES APPERTAINING DIRECTLY TO SPECIAL OPERATIONS, SUCH AS DEPOSITORY BANK CHARGES, AND EXPENSES WHICH MAY BE MET FROM CONTRIBUTIONS TO THE TECHNICAL ASSISTANCE SPECIAL FUND PURSUANT TO THE RESPECTIVE CONTRIBUTION AGREEMENT, BE CHARGED TO THE RESPECTIVE SPECIAL FUNDS;

- B. EXPENSES APPERTAINING DIRECTLY TO ORDINARY OPERATIONS, SUCH AS DEPOSITORY BANK CHARGES, FINANCIAL EXPENSES ON BORROWINGS, ETC. BE CHARGED TO OC RESOURCES;
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- C. INTERNAL ADMINISTRATIVE EXPENSES OTHER THAN THOSE MENTIONED IN (A) AND (B) ABOVE, BE CHARGED TO THE OC RESOURCES AND SPECIAL FUNDS IN PROPORTION TO THE NUMBER OF LOANS APPROVED IN THE YEAR OUT OF EACH RESOURCE.

4. ADB DOC. R73-78 ON THE ABOVE SUBJECT WAS POUCHED AUGUST 8, 1978 AND WILL BE CONSIDERED BY THE BOARD OF DIRECTORS ON SEPTEMBER 12. USADB BELIVES THE PROPOSAL IS REASONABLE AND APPROPRIATE AND RECOMMENDS THAT IT BE AUTHORIZED TO CONCUR. EDMOND

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